



## CITY OF LODI

## COUNCIL COMMUNICATION

**AGENDA TITLE:** Public Hearing to introduce ordinance for the implementation of an Electric Market Cost Adjustment Policy and Mechanism

**MEETING DATE:** April 18, 2001

**PREPARED BY:** Electric Utility Director

**RECOMMENDED ACTION:** That the City Council approve introduction of ordinance amending Lodi Municipal Code Chapter 13.20 Electrical Service, Article III Rates, by adding section 13.20.175 Schedule Market Cost Adjustment effective on applicable utility billings prepared by City of Lodi on or after June 1, 2001.

**BACKGROUND INFORMATION:** The City of Lodi's historical power purchase strategy has been to be in a partial deficit energy position in the winter season. This strategic position has been very successful because the price for power on the spot and short-term market was generally very low during this period. The gas and electric energy market has seen dramatic volatility in recent months and has caused the City of Lodi to take various mitigation strategies. The nature of the market situation has caused the cost of purchased energy to be significantly higher than originally budgeted, although without the mitigation strategies would have been much more severe. It is anticipated that the market will improve, but should remain volatile for at least two more years.

The Market Cost Adjustment will allow the Electric Utility Department to better follow the market and to capture both recent under-collections and future costs. This mechanism would be adjusted on a quarterly basis and would utilize an approved formula. The formula will reflect a true up of prior costs and a rolling twelve-month projection of purchased power costs. The mechanism is designed to minimize spikes to the adjustment rates. It is anticipated that the adjustment may go up or down depending on the various short and long-range strategies the City of Lodi elects to employ and the state of the power market at the that time.

**FUNDING:** Not Applicable

Alan N. Vallow  
Electric Utility Director

ANV/lst

C: City Attorney

**APPROVED:**

  
H. Dixon Flynn - City Manager



# **CITY OF LODI**

## **ELECTRIC UTILITY DEPARTMENT**

### **SCHEDULE MCA**

#### **MARKET COST ADJUSTMENT**

##### **APPLICABILITY:**

When in effect, this schedule is applicable to all areas served by the City and to all kilowatt-hours billed under all rate schedules as defined under the special conditions of the rate schedules labeled Purchased Power Adjustment.

##### **PURPOSE:**

Generally, power supply costs will be recovered through application of the base rates. In the event that substantial changes in projected power supply costs occur, either increases or decreases, the Market Cost Adjustment Billing Factor will be activated to provide for increases or decreases in the City's charges for electric service. The Electric Utility Director shall develop and recommend a MCA Billing Factor to be effective on a specified date for the approval of the City Council.

##### **APPLICATION OF MARKET COST ADJUSTMENT:**

When applicable, the Market Cost Adjustment Billing Factor (MCABF) for a particular rate schedule as designated in the attached MCABF table, in cents per kWh, shall be applied to kilowatt-hours sold on and after the effective date, and continuing thereafter until the next base rate change or until a revision to the Market Cost Adjustment Billing Factor becomes effective. The dollar amount to be added to or subtracted from each bill due to the Market Cost Adjustment shall be obtained by multiplying the number of kilowatt-hours for which the bill is rendered by the applicable Market Cost Adjustment Billing Factor.

##### **CALCULATION OF THE POWER COST ADJUSTMENT BILLING FACTOR:**

1. When the Electric Utility Director deems that substantial changes in power supply costs have occurred relative to the costs included in base rates, the Market Cost Adjustment Billing Factor shall be activated following the approval of the City Council.
2. The Billing Factor shall remain in effect until the next base rate change or until a revision to the Billing Factor is necessary.
3. While the Billing Factor is activated, a Market Cost Adjustment account shall be maintained. Entries into this account shall be:
  - a. The balance from the previous month;
  - b. The increase or decrease in charges for electric service billed using the applicable Billing Factor; and
  - c. Any interest accruing to the account.

## SCHEDULE MCA

### MARKET COST ADJUSTMENT

4. The MCA Billing Factor shall be designed by giving consideration to the following factors:
  - a. Rate stability is desirable and frequent changes in the MCA Billing Factor are undesirable.
  - b. The financial integrity of the Electric Utility Department shall be maintained by applying a MCA Billing Factor, when necessary, to ensure that the Electric Utility Department does not overcollect or undercollect the revenue required for sound financial operation.
5. The Electric Utility Department shall furnish to the City Council a notice of any proposed activation or change in the MCA Billing Factor. Any activation or change in the MCA Billing Factor requires approval by the City Council.
6. The Electric Utility Department generally shall make the MCA Billing Factors effective as of the first day of the appropriate month. Adjustments to the MCA shall be no more frequent than quarterly and no less than semi-annually.

MARKET COST ADJUSTMENT BILLING FACTOR		
The Market Cost Adjustment Billing Factor by designated rate schedule, in cents per kilowatt-hour, shall be shown in this Section. Certain classes may have a tiered MCABF by level of monthly consumption.		
Class	Cents per kWh	Date Effective
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G2	2.000	June 1, 2001
G3	0.000	June 1, 2001
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G5	0.000	June 1, 2001
I1	0.000	June 1, 2001

ORDINANCE NO. \_\_\_\_\_

**AN ORDINANCE OF THE LODI CITY COUNCIL AMENDING  
CHAPTER 13.20 ELECTRICAL SERVICE, ARTICLE III. RATES BY  
ADDING SECTION 13.20.175 - SCHEDULE MCA – MARKET  
COST ADJUSTMENT**

=====

**BE IT ORDAINED BY THE LODI CITY COUNCIL AS FOLLOWS:**

**SECTION 1.** Lodi Municipal Code Chapter 13.20 - Electrical Service, Article III. Rates, is hereby amended by adding Section 13.20.175 – Schedule MCA – Market Cost Adjustment as follows:

**SCHEDULE MCA – MARKET COST ADJUSTMENT**

**APPLICABILITY:**

When in effect, this schedule is applicable to all areas served by the City and to all kilowatt-hours billed under all rate schedules as defined under the special conditions of the rate schedules labeled Purchased Power Adjustment.

**PURPOSE:**

Generally, power supply costs will be recovered through application of the base rates. In the event that substantial changes in projected power supply costs occur, either increases or decreases, the Market Cost Adjustment Billing Factor will be activated to provide for increases or decreases in the City's charges for electric service. The Electric Utility Director shall develop and recommend a MCA Billing Factor to be effective on a specified date for the approval of the City Council.

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<b>MARKET COST ADJUSTMENT BILLING FACTOR</b>		
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G4	0.000	June 1, 2001
G5	0.000	June 1, 2001
I1	0.000	June 1, 2001

**Section 2. - No Mandatory Duty of Care.** This ordinance is not intended to and shall not be construed or given effect in a manner which imposes upon the City, or any officer or employee thereof, a mandatory duty of care towards persons or property within the City or outside of the City so as to provide a basis of civil liability for damages, except as otherwise imposed by law.

**Section 3. - Severability.** If any provision of this ordinance or the application thereof to any person or circumstances is held invalid, such invalidity shall not affect other provisions or applications of the ordinance which can be given effect without the invalid provision or application. To this end, the provisions of this ordinance are severable. The City Council hereby declares that it would have adopted this ordinance irrespective of the invalidity of any particular portion thereof.

**SECTION 4.** All ordinances and parts of ordinances in conflict herewith are repealed insofar as such conflict may exist.

**SECTION 5.** This Schedule MCA – Market Cost Adjustment shall be effective on applicable electric utility billings prepared by the City of Lodi on or after June 1, 2001.

Approved this \_\_\_\_ day of \_\_\_\_\_, 2001

\_\_\_\_\_  
ALAN S. NAKANISHI  
MAYOR

ATTEST:

SUSAN J. BLACKSTON  
City Clerk

State of California  
County of San Joaquin, ss.

I, Susan J. Blackston, City Clerk of the City of Lodi, do hereby certify that Ordinance No. \_\_\_\_ was introduced at a regular meeting of the City Council of the City of Lodi held \_\_\_\_\_, 2001 and was thereafter passed, adopted and ordered to print at a regular meeting of said Council held \_\_\_\_\_, 2001 by the following vote:

AYES: COUNCIL MEMBERS –

NOES: COUNCIL MEMBERS –

ABSENT: COUNCIL MEMBERS –

ABSTAIN: COUNCIL MEMBERS –

I further certify that Ordinance No. \_\_\_\_ was approved and signed by the Mayor on the date of its passage and the same has been published pursuant to law.

SUSAN J. BLACKSTON  
City Clerk

Approved to Form:



RANDALL A. HAYS  
City Attorney

PROOF OF PUBLICATION

(2015.5 C.C.P.)

STATE OF CALIFORNIA,

County of San Joaquin.

I am a citizen of the United States and a resident of the County aforesaid; I am over the age of eighteen years, and not a party to or interested in the above-entitled matter. I am the principal clerk of the printer of the Lodi News-Sentinel, a newspaper of general circulation, printed and published daily, except Sundays and holidays, in the City of Lodi, California, County of San Joaquin, and which newspaper has been adjudged a newspaper of general circulation by the Superior Court, Department 3, of the County of San Joaquin, State of California, under the date of May 26th, 1953, Case Number 65990; that the notice, of which the annexed is a printed copy (set in type not smaller than nonpareil), has been published in each regular and entire issue of said newspaper and not in any supplement thereof on the following dates, to-wit:

March 24

all in the year 2001.

I certify (or declare) under penalty of perjury that the foregoing is true and correct.

Dated at Lodi, California, this 24 day of

March

2001

Signature

Susan J. Blackston

PROOF OF PUBLICATION

3197

By Order of the Lodi City Council:  
Susan J. Blackston  
City Clerk  
Dated: March 21, 2001  
Approved as to form:  
Randall A. Hays  
City Attorney  
March 24, 2001  
3197

If you challenge the subject matter in court, you may be limited to raising only those issues you or someone else raised at the Public Hearing described in this notice or in written correspondence delivered to the City Clerk, 221 West Pine Street, at or prior to the Public Hearing.

Information regarding this item may be obtained in the office of the Utility Department Director, 1331 South Ham Lane, Lodi, California. All interested persons are invited to present their views and comments on this matter. Written statements may be filed with the City Clerk at any time prior to the hearing scheduled herein, and oral statements may be made at said hearing.

a) Introduce Ordinance for the implementation of a Market Cost Adjustment Policy and Mechanism

NOTICE IS HEREBY GIVEN that on Wednesday, April 18, 2001 at the hour of 7:00 p.m., or as soon thereafter as the matter may be heard, the City Council will conduct a Public Hearing at the Carnegie Forum, 305 West Pine Street, Lodi, to consider the following matter:

NOTICE OF PUBLIC HEARING

Public Hearing

Proof of Publication of

This space is for the County Clerk's Filing Stamp

SUSAN J. BLACK  
CITY CLERK  
CITY OF LODI  
01 MAR 29 AM 11  
RECEIVED

PROOF OF PUBLICATION

(2015.5 C.C.P.)

STATE OF CALIFORNIA,

County of San Joaquin.

I am a citizen of the United States and a resident of the County aforesaid; I am over the age of eighteen years, and not a party to or interested in the above-entitled matter. I am the principal clerk of the printer of the Lodi News-Sentinel, a newspaper of general circulation, printed and published daily, except Sundays and holidays, in the City of Lodi, California, County of San Joaquin, and which newspaper has been adjudged a newspaper of general circulation by the Superior Court, Department 3, of the County of San Joaquin, State of California, under the date of May 26th, 1953, Case Number 65990; that the notice, of which the annexed is a printed copy (set in type not smaller than nonpareil), has been published in each regular and entire issue of said newspaper and not in any supplement thereof on the following dates, to-wit:

April 2, 10

all in the year 2001.

I certify (or declare) under penalty of perjury that the foregoing is true and correct.

Dated at Lodi, California, this 10 day of

April

2001.

*Sarah Waterman*

Signature

PROOF OF PUBLICATION

This space is for the County Clerk's Filing Stamp

Proof of Publication of

Public Hearing

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APRIL 18, 2001

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PROPOSED ORDINANCE:

SECTION 1. Lodi Municipal Code Chapter 13.20 - Electrical Service, Article III. Rates, is hereby amended by adding Section 13.20.175 - Schedule MCA - Market Cost Adjustment as follows:

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11	0.000	June 1, 2001

Section 2. - No Mandatory Duty of Care. This ordinance is not intended to and shall not be construed or given effect in a manner which imposes upon the City, or any officer or employee thereof, a mandatory duty of care towards persons or property within the City or outside of the City so as to provide a basis of civil liability for damages, except as otherwise imposed by law.

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By Order of the Lodi City Council:

Susan J. Blackston  
City Clerk  
Dated: March 21, 2001  
Approved as to form:  
Randall A. Hays  
City Attorney

April 2, 10, 2001

— 3231



***Please immediately confirm receipt  
of this fax by calling 333-6702***

CITY OF LODI  
P. O. BOX 3006  
LODI, CALIFORNIA 95241-1910

**ADVERTISING INSTRUCTIONS**

**SUBJECT:** PUBLIC HEARING FOR INTRODUCTION OF DRAFT ORDINANCE FOR THE  
IMPLEMENTATION OF A MARKET COST ADJUSTMENT POLICY AND MECHANISM

**PUBLISH DATE(s):** MONDAY, APRIL 2, 2001  
TUESDAY, APRIL 10, 2001

**TEAR SHEETS WANTED:** Three (3) please

**SEND AFFIDAVIT AND BILL TO:** SUSAN BLACKSTON, CITY CLERK  
City of Lodi  
P.O. Box 3006  
Lodi, CA 95241-1910

**DATED:** MARCH 30, 2001

**ORDERED BY:**

\_\_\_\_\_  
JACQUELINE L. TAYLOR  
DEPUTY CITY CLERK

  
JENNIFER M. PERRIN  
DEPUTY CITY CLERK

**Verify Appearance of this Legal in the Newspaper - Copy to File**

*E-mailed to Sara at*  
Sharon ☒ Faxed to the Sentinel at 369-1084 at 2:16pm (time) on 3/30/01 (date) JMP (pages)  
Phoned to confirm receipt of all pages at \_\_\_\_\_ (time) Jac \_\_\_\_\_ Jen \_\_\_\_\_ (initials)  
*compeladineews.com*

## NOTICE OF PUBLIC HEARING

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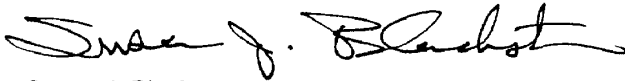
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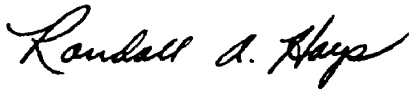
By Order of the Lodi City Council:

A handwritten signature in black ink, appearing to read "Susan J. Blackston".

Susan J. Blackston  
City Clerk

**Dated: March 21, 2001**

Approved as to form:

A handwritten signature in black ink, appearing to read "Randall A. Hays".

Randall A. Hays  
City Attorney

Job 4-18-01

# Market Cost Adjustment



# Current Market Conditions

- Extreme price volatility
- Wholesale market failure
- PG&E and Potential SCE bankruptcy
- Legislative & regulatory uncertainty



# Market Cost Adjustment

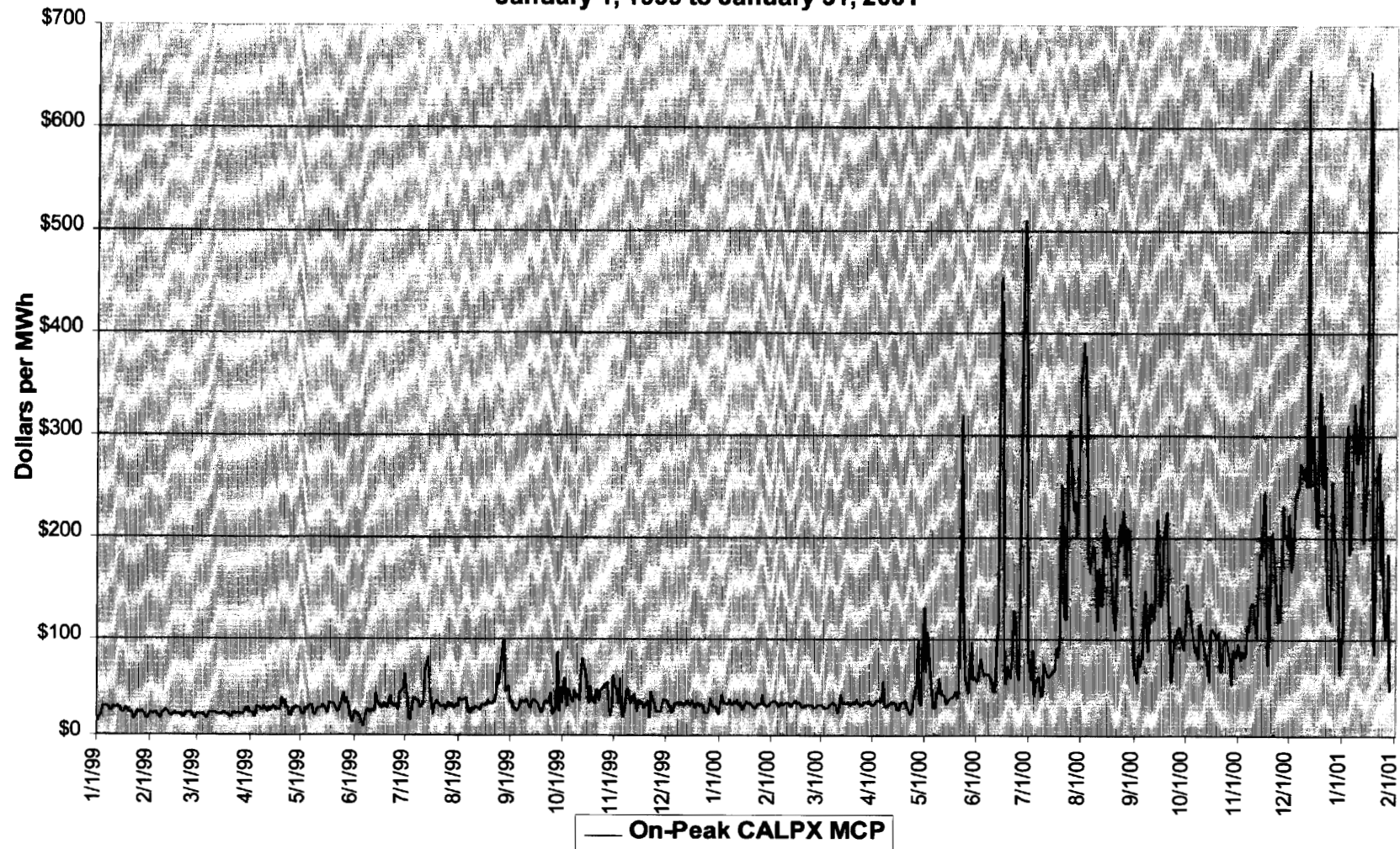
**“In hindsight, I don’t think anyone  
could have predicted the four  
months we’ve had” ...**

*Paul Clanon, California Public Utilities Commission  
Energy Division Director*





**California Power Exchange**  
**SP 15 Average Daily On-Peak Market Clearing Price**  
January 1, 1999 to January 31, 2001



# Utility Rate Increases

## Approved

SCE & PG&E: 30-40%

Seattle: 28%

Tacoma: 50% surcharge

Clark (WA): 21%

Lassen (CA): 44%

## Proposed

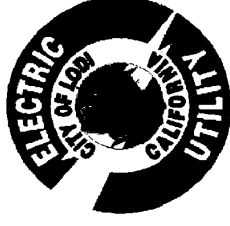
BPA: 100-200%



# Market Cost Adjustment

Other Utilities with Adjustment or  
considering:

Anaheim  
Pasadena  
Burbank  
Glendale  
Palo Alto  
Roseville



# **Market Cost Adjustment**

- Recovers power costs not collected in rates**
- Semi-Annual to Quarterly**
- Customers may receive a charge or credit**
- True up annually**



# **Market Cost Adjustment**

**Lifeline customers exempt**

**Charged on a per kWh basis**

**Residential Tiered Rate**

**Conservation based rate**

**Higher kWh = higher \$ /kwh**



# MCA Energy Rates

## Residential EA/EE

0-300 kwh 1.25 cents/kwh +10%

300-600 kwh 1.9 cents/kwh +15%

Over 600 kwh 3.0 cents/kwh +22%

G1/G2 2.0 cents per kwh 15/22 %



# Market Impacts on Lodi

Unanticipated Expenditures:

Power Supply Costs      \$10M

Requires temporary rate adjustment as follows:

EA/EE      15% overall

Low Income      0% overall

G1      15%

G2      20% on energy, 8% overall

Other classes      0%



# Customer Bill Impact

Residential (EA) August Bill @ 300 kwh

Before MCA \$33.33

After MCA: \$37.08

+11.2% \$3.75

Reduce by 10% for old bill





# Customer Bill Impact

Residential (EA) August Bill @ 665 kwh

Before MCA \$76.65

After MCA: \$88.07

+14.8% \$11.42

Reduce by 10% for old bill



# Customer Bill Impact

Commercial G1 August Bill @ 1,425 kwh

Before MCA \$191.80

After MCA: \$220.30

+14.9% \$28.50

Reduce by 12% for old bill



# Customer Bill Impact

Commercial G2 August Bill @ 28,320  
kwh

Before MCA \$2,902.20

After MCA: \$3,468.60

+8.0% \$566.40

Reduce bill by demand/energy practices



# **MCA Benefits**

**Proactive response to  
market uncertainty**

**Insulation from price volatility**

**Insurance for emergencies &  
unexpected events**

**✓ Credit rating protection**



# Power Cost Adjustment

**“California’s current power crisis  
is the precursor of a much more  
serious shortage that will occur  
this summer.”**

*Cambridge Energy Research Associates*

